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Weekly Summary

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CONTENTS (January 16, 1976)



The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

MIDDLE EAST
AFRICA

- 1 Lebanon: Fighting Spreads
- 2 Angola: Fighting; OAU; Soviets
- 6 Spanish Sahara: Gobbled Up
- 7 Israel: Missile Boat Patrols
- 7 Morocco Releases Soviet Trawler
- 8 Ethiopia: Trouble All Around

EUROPE

- 9 Moscow Questions Peking's Motives
- 10 USSR: Electric Power; CPSU Congress
- 11 Soviets Invite Observers
- 12 Iceland: Break with UK Looms
- 12 EC: Tindemans Submits His Report
- 14 Italy: More Problems for Moro
- 15 Spain: Labor Unrest Spreads

EAST ASIA
PACIFIC

- 18 Japan-USSR: Gromyko Visit
- 19 China: Mourning Chou En-lai
- 20 Thailand: New Elections

WESTERN
HEMISPHERE

- 21 Ecuador: New Faces; Old Problems
- 22 Venezuela: Oil Jitters

- 24 Latin American Arms Purchases
- 25 Violence in Jamaica

INTERNATIONAL

- 26 OPEC: Heavy Crude Sales Slump

Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary.

SECRET

-UPI-



Palestinian guerrillas move into battle positions in eastern suburbs of Beirut

LEBANON: FIGHTING SPREADS

The fighting between the Christians and their Muslim and leftist foes grew hotter this week, and the situation is approaching all-out civil war. Clashes have spread to all areas of Beirut, to traditional trouble spots in northern and eastern Lebanon, and to previously unaffected towns in the mountains outside the capital and in the south. As a result, confessional lines have sharpened to the point that Christian and Muslim leaders have abandoned attempts to negotiate among themselves. They are concentrating instead on strengthening their positions before entering another round of talks with the Syrians on the five-point peace program proposed by President Asad last month.

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The continuing blockade of two Palestinian refugee camps by Christian forces and their take-over this week of a third camp have drawn in greater numbers of armed Palestinians; until this week, the fedayeen had largely stayed on the sidelines. The major Palestinian leaders had hoped to avoid a resumption of heavy fighting out of concern that such a development would play into the hands of the Israelis at the UN Security Council debate on the Middle East that began on January 12.

The fall of Dibayah camp has prompted charges from the Palestinians that the Lebanese

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army aided the Christian militiamen who took the camp. In the past, the Palestinians have exaggerated the army's involvement in the fighting, but there is growing evidence that the army is now siding more openly with the Christians. Army units appear to be supporting Christians in Zahlah and in the Tripoli-Zagharta area where clashes are especially heavy.

Although the involvement of the predominantly Christian-officered army is still limited, it has accentuated the strictly religious aspects of the dispute and will provide the Muslims and Palestinians justification for bringing in more fedayeen units. If main-line Palestinian forces do step in, this would erode the last constraints to all-out civil war.

With the resurgence of fighting, Syria is trying harder to find a solution to the dispute. The Syrians played host this week to leading Christian figures and representatives of the major Lebanese leftist and Muslim groups in preparation for a meeting in Damascus between President Franjiah and Asad this weekend.

Franjiah is expected to take a hard stand with Asad on the issue of Palestinian intervention in Lebanese affairs, but has hinted he may be more flexible on Muslim political demands. These hints of concessions are probably only tactical moves intended to persuade Syria not to permit more armed Palestinians into Lebanon. Franjiah will also use the temporary military advantage the Christians have gained through the blockades to press an earlier Christian proposal that any comprehensive agreement be guaranteed by an international police force that includes Saudis and Kuwaitis as well as Syrians.

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ANGOLA

This week the Popular Movement for the Liberation of Angola advanced deep into the tribal heartland of the rival National Front for the Liberation of Angola. The Movement's gains virtually closed out the battlefront in northwestern Angola and opened the way for new drives southeast from the Movement's key positions in the central sector. At the special summit meeting of the Organization of African Unity that ended on January 13, the Popular Movement failed to win recognition as the sole legitimate government of Angola, but it is close to gaining formal acceptance by a majority of OAU members. The Movement continues to receive extensive material support from Moscow and Havana, including increasing numbers of Cuban combat troops.

Military Situation

The National Front's attempt to hold off advancing Popular Movement forces in the north collapsed abruptly late last week as Front forces gave up one position after another and fled in panic toward Zaire. Ambriz, the Front's main headquarters in Angola since last spring, fell before the weekend. Toto and Bessa Monteiro were taken over by rapidly moving Popular Movement troops on January 11. Ambrizete, another key Front stronghold on the coast, was

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evacuated by Front troops the following day as was Sao Salvador, close to the Zairian border. Movement forces raced on toward Tomboco and Santo Antonio do Zaire as the rout continued. Cuban troops were apparently primarily responsible for the Movement's gains.

With the defeat of the Front in the north, Popular Movement leaders and their advisers will probably quickly divert more resources to central Angola, where South African troops and mercenaries have been supporting forces of the Front and its southern-based ally, the National Union for the Total Independence of Angola. Popular Movement troops moving out of strongholds at Quibala and Malanje apparently made gains in several directions during the week; South African press reports mentioned heavy fighting around Gabela and Mussende in particular.

Uneasy Allies

As the Popular Movement presses south it stands to profit from serious friction between National Front forces in central and southern Angola and those of the National Union. These Front forces are not really responsive to that organization's top leader—Holden Roberto—but are personally loyal to Daniel Chipenda, a former Popular Movement military commander who nominally joined the Front last year. An ambitious free-wheeler, Chipenda is also a tribal rival of the National Union's Jonas Savimbi.

OAU Deadlocks

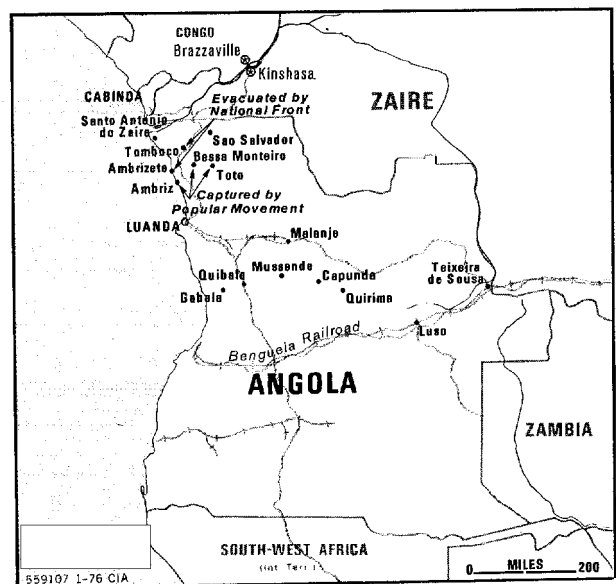
The OAU emergency summit that convened in Addis Ababa on January 10 adjourned three days later with partisans and opponents of the Popular Movement among the 46 member states totally deadlocked. Unable to act, the conference, which was attended by some 20 heads of state or government, in effect pigeonholed the problem until the next regular summit convenes in Mauritius later this year.

The impasse at Addis Ababa is something of a victory for the National Front and the National Union inasmuch as the Luanda-based regime of

Popular Movement leader Agostinho Neto was not seated. The failure of the conferees to reach an acceptable compromise, however, rules out, for now at least, any collective African role in the search for a settlement of the Angolan conflict. For Africa, the summit heightened tensions among OAU members and severely damaged the prestige of their regional organization.

The standoff developed early in the meeting as representatives of 44 countries split evenly in lining up behind pro- and anti-Popular Movement draft resolutions, both of which provided for explicit condemnation of South Africa's involvement in the Angolan civil war. The draft submitted by Neto's supporters named his regime as the legal government of Angola. The opposing draft denounced all foreign intervention and called on the three warring Angolan groups to conclude a cease-fire and agree on a government of national unity. Uganda, because of President Amin's role as OAU chairman, and Ethiopia, the host country, refrained from taking sides formally.

As the conference proceeded amidst sometimes bruising exchanges among a succession of speakers for the two sides, numerous attempts at compromise were made. Although



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Holden Roberto (l) and Jonas Savimbi at OAU summit

leading partisans—for example, pro-Neto Nigeria and anti-Neto Zambia—displayed considerable give, all of the attempts failed, including a final effort by a 10-country negotiating committee formed during the early hours of January 13. Neto's hard-line supporters—Algeria, Guinea, and Mozambique—seem to have finally pulled back on the recognition issue, but those states and others refused to accept demands for an immediate cease-fire and withdrawal of all foreign forces by the hard liners on the other side, notably Ivory Coast and Senegal.

A high-level Cuban delegation sent to Addis Ababa especially for the meeting may have helped stiffen resistance to a compromise by the Popular Movement's staunchest backers. The Cubans lobbied hard throughout the session on behalf of Neto and reportedly counseled his African friends that no summit decision would be better than a bad one.

In the end, the turbulent meeting produced neither a resolution nor even a consensus statement and was simply declared adjourned by Amin. Pretoria thus escaped any formal condemnation for its role in Angola. An OAU spokesman who announced the closure said that a committee

of nine African leaders established by last year's summit had been asked to continue to follow the problem closely, but early action by the group is not likely.

The summit's failure in effect leaves OAU members not committed to the Popular Movement free to follow their own course, including continued neutrality. Neto's main backers will almost certainly step up their campaign for recognition of his regime with a view to forcing the issue to a successful conclusion at the next summit. With the action of Niger and the Comoro Islands last week and Ethiopia on January 15, at least 22 OAU members have now officially endorsed the Luanda government. No government has recognized the joint regime proclaimed by the National Front and the National Union.

Some of Neto's African supporters, frustrated by the summit's outcome, may try to blame it on the US. One OAU official insisted, in contacts with officers of the US embassy in Addis Ababa after the conference, that the US could get the South Africans out of Angola but didn't want to. The embassy has heard reports that Nigeria, Mozambique, and Tanzania may also be casting the US in the role of scapegoat.

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AFRICAN LINEUP ON DRAFT ANGOLA RESOLUTIONS

<u>Pro-Popular Movement</u>	<u>Anti-Popular Movement</u>
Algeria	Botswana
Benin	Cameroon
Burundi	Ivory Coast
Cape Verde	Egypt
Comoros	Gambia
Congo	Gabon
Ghana	Upper Volta
Guinea	Kenya
Guinea-Bissau	Liberia
Equatorial-Guinea	Lesotho
Libya	Malawi
Mauritius	Morocco
Madagascar	Mauritania
Mali	Rwanda
Mozambique	Central African Republic
Niger	Senegal
Nigeria	Sierra Leone
Sao Tome	Swaziland
Somalia	Togo
Sudan	Tunisia
Chad	Zaire
Tanzania	Zambia

Soviets Disappointed with the OAU

Publicly, the Soviets have shown disappointment over the inconclusive results of the OAU summit conference on Angola. Except for the OAU's failure to call for the withdrawal of all foreign forces, including Soviet and Cuban, from Angola, Moscow probably takes little comfort from the summit's outcome. The conference had been convened at the initiative of Popular Movement supporters, with Somalia and other African states sympathetic to Moscow in the lead. The USSR had made a considerable diplomatic effort to line up support for the Popular Movement, and the Soviet media worked hard to give the impression that a Popular Movement bandwagon was developing within the OAU.

Tass in an article later echoed by a *Pravda*, commentator over Radio Moscow, blamed

"feverish" diplomatic and economic pressure by the US and other "imperialist states" for helping defeat an OAU resolution that would have recognized the Soviet-backed Popular Movement as the sole legitimate government in Angola. Other Soviet commentary was even more explicit in denouncing as "direct blackmail" the recent African trip by Assistant Secretary Schaufele and President Ford's circular letter to African heads of state on the eve of the OAU summit.

In its summit post-mortem, Tass implicitly rejected a resolution calling for a cease-fire and the formation of a national unity government—which also had failed to win OAU endorsement. Tass described the National Front and National Union as Angolan "splittists" that had discredited themselves by virtue of their close alliance with South Africa. *Pravda*, in its radio broadcast, expressed the hope that "progressive forces" in the OAU will eventually prevail and that the African organization will ultimately adopt the "only just solution," recognition of the "lawful government" of the MPLA.

Privately, however, the Soviets have been putting out the line that some sort of coalition formula for resolving the Angolan conflict might eventually be acceptable to Moscow. V. V. Zhurkin, a prominent Soviet academician who—as deputy director of the USA Institute—closely follows the Kremlin's relations with Washington, recently mentioned this possibility to a Western diplomat in Moscow. Zhurkin's comments were further refined early this week by two other Soviets in Moscow, one of them the director of the USSR's Africa Institute. They told US embassy officials that a coalition government of the Popular Movement and the National Union, including National Union leader Savimbi but presumably dominated by the Popular Movement might be possible.

They ruled out inclusion of National Front leader Roberto in a coalition on grounds that he would never be acceptable to Popular Movement "President" Neto and his colleagues. The officials, however, left open the possibility of participation in the coalition by other National Front leaders.

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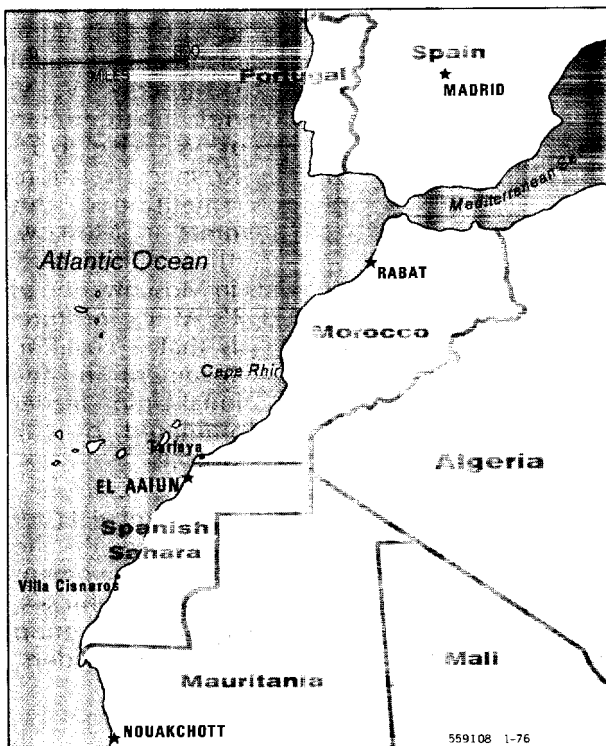
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SECRET**SPANISH SAHARA: GOBBLED UP**

Moroccan and Mauritanian forces further expanded their occupation of Spanish Sahara this week as Spain completed its military withdrawal. The final transfer of administrative authority is to take place by the end of February. Algeria, meanwhile, is continuing its support to Polisario Front guerrillas, who are carrying out harassing actions against the occupiers over a wide area.

Both Moroccan and Mauritanian troops were on hand as the last Spanish troops departed Villa Cisneros, the territory's largest commercial center. Spain had earlier promised to hand over the town to Nouakchott, but Rabat probably insisted on a joint take-over to secure the town against possible occupation by the guerrillas. Morocco's move probably was also influenced by its interest in the lucrative commercial fishing industry located there.

The two countries have apparently not reach-



ed full agreement on how to divide the territory Spain is abandoning, and they may well hold differing views on the disposition of Villa Cisneros. Moroccan media treatment of its occupation strongly suggested that Rabat intends to stay.

For public consumption, Morocco is playing down clashes with the guerrillas as minor police operations. The Moroccans are sufficiently confident of their control of population centers that they are inviting foreign journalists to visit the territory.

Despite Moroccan control of most towns in the north, the guerrillas continue to attack Moroccan convoys and patrols both in the Sahara and in southern Morocco. Their ambush tactics and minelaying operations are beginning to take a toll.

Fighting between Mauritanian and Polisario forces has increased as Mauritanian troops advanced farther into southern Spanish Sahara. Nouakchott has taken control of several towns despite resistance by Front partisans. Isolated skirmishes are also being reported inside Mauritania, most recently across from the long eastern border of the Sahara.

Algeria is prepared to back a long-term guerrilla struggle. At present, Algiers is also exploring the possibilities of mediation of the dispute, probably mainly with a view to delaying international recognition of the Moroccan-Mauritanian take-over. The Algerians also probably want to gain time to build up the military strength and political credibility of the Polisario Front.

In recent weeks, Algiers has had contacts with Senegal looking to possible African mediation. Given the inconclusive outcome of the UN General Assembly debate on Spanish Sahara—two contradictory resolutions were passed last week—Algeria's only remaining move at the UN would be an appeal to the Security Council on grounds that the Saharan dispute constitutes a threat to international security.

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Meanwhile, the Polisario Front this week gained for the first time the open support of Libya, which had maintained a public position of neutrality in the dispute. In a speech on January 12, President Qadhafi announced that he had been channeling weapons and ammunition to the Front since 1973 and that he would continue to support its "armed struggle" against Morocco and Mauritania. Although less than a complete commitment to Algeria, Tripoli's position is almost certainly a reflection of a new closeness in Libyan-Algerian relations ushered in by two meetings between Qadhafi and Boumedienne last month.

MOROCCO RELEASES SOVIET TRAWLER

The Soviet fishing trawler Sapfir, seized December 30 by the Moroccan navy, was released last Saturday, according to the US defense attache in Rabat. Morocco at first believed the ship was supplying arms to the Polisario Front. A search of the ship apparently turned up only fish. The release reportedly was ordered after a fine was levied, allegedly because the ship was inside Morocco's 70-mile economic zone.

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12-44

ISRAEL: MISSILE BOAT PATROLS

The Israeli navy may be planning to begin naval patrols in the southern Red Sea. Two Reshef-class guided-missile patrol boats were observed off the coast of Ethiopia on December 24, according to the US naval attache in Tel Aviv. It is likely the boats operated in the area for about a week. The mission was probably for familiarization before the start of regular operations in the Bab el Mandeb - Gulf of Aden area. Such operations would be in accord with Israel's evolving naval strategy of extending protection over Israeli shipping lanes in both the Mediterranean and Red seas and of developing a capability of attacking potential enemy forces in their home waters.

Israel has long been concerned about the Arabs' ability to close the Red Sea to ships carrying Israeli cargos. About five years ago, Tel Aviv began constructing six Reshef boats for use in the Red Sea. Two boats were completed shortly before the October 1973 war, but neither was in the Red Sea at its outset, leaving Israel unable to challenge Egypt's blockade of the Bab el Mandeb. Since the war, four Reshefs plus two of the smaller, French-built, Saar II missile boats have

been sent around Africa into the Red Sea. From their home port of Sharm ash Shaykh, the Reshefs could operate in the Bab el Mandeb and the Gulf of Aden without refueling, although they would be beyond the range of effective Israeli air cover. The shorter range Saar IIs would be limited to operations closer to home port.

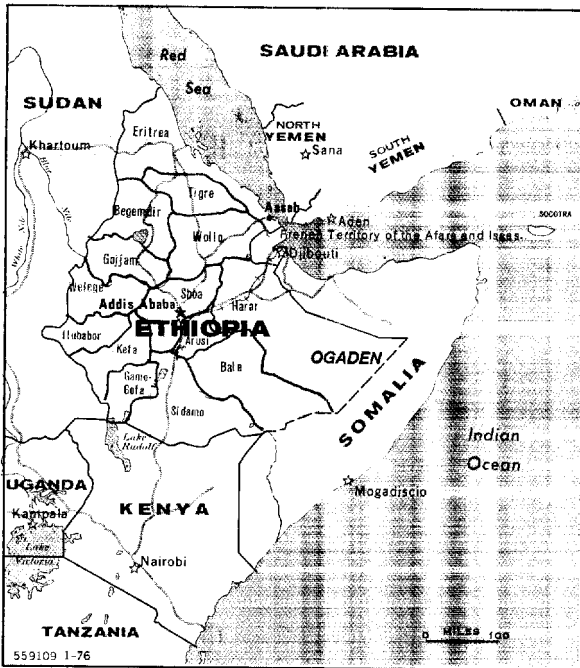
Israel has also taken steps to improve its naval capabilities in the Mediterranean. Last year, Tel Aviv purchased from the US a logistic ship originally designed to support deep-water drilling operations which it intends to use after conversion to support missile boat operations in the Mediterranean. The ship is in Israel being modified and reportedly will be ready in March. It will enable Israeli missile boats to operate in the central and western Mediterranean and will bring within range Arab states such as Libya and Algeria, which the Israelis believe will be major contributors to any new round of fighting in the Middle East.

The size of Israel's missile boat force also is being increased. Construction has been authorized for at least six more Reshef boats, and work has already begun on three of them. When all six are commissioned, Israel will have 12 Reshef-class missile boats and 12 Saar-class.

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ETHIOPIA: TROUBLE ALL AROUND

The new year finds the ruling military council hanging on in Addis Ababa, but its control over the countryside is still being widely challenged. Violence is occurring in nearly all of Ethiopia's 14 provinces.

The secessionist movement in Eritrea Province remains the most serious of the numerous insurgencies facing the government, although the conflict has been stalemated for some time. Fighting could pick up soon, but neither the rebel nor the government side has the ability to overcome the other.

Logistic problems, indiscipline, a shortage of trained officers, and low morale have restrained government military operations. A battalion of reinforcements arrived in Eritrea last week, and more troops may follow shortly. The arrival of the reinforcements may signal an increase in government operations against the rebels.

The insurgents are divided into two rival factions and their units seldom coordinate operations against government forces. Their leaders apparently have not devised a coherent

military strategy nor tried to apply theories of modern guerrilla warfare.

Parts of four other northern provinces are outside government control because of rebellions led by landlords opposed to Addis Ababa's land reform program and by prominent figures from the old regime. A group called the Ethiopian Democratic Union began an insurrection in Begemdir Province in November. The group, which reportedly is also active in Tigre Province, periodically cuts a main road leading to the Sudanese border. The group's two main leaders, who are believed to have widespread support throughout northern Ethiopia, are probably also in contact with local notables who lead minor insurrections in Begemdir, Tigre, Gojjam, and Shoa provinces.

In southern Eritrea and eastern Wollo provinces, a guerrilla force composed of rebellious Afar tribesmen occasionally is able to cut the road between Addis Ababa and Assab, where Ethiopia's only oil refinery is located. Most of the clashes between the Afars and government forces are minor, but in December the Afars reportedly executed 18 suspected government sympathizers. Government troops promptly executed 40 Afars.

During the past six weeks, insurgents have also become active in the Ogaden region, particularly Harar and Bale provinces. Both the ethnic Somalis and the Ethiopian Gallas are involved. Somalia has apparently aided the groups with arms and training in guerrilla warfare. Mogadiscio claims the Ogaden as part of "greater Somalia."

In an attempt to deal with the growing violence, Ethiopia's military rulers have begun expanding the armed forces. Large numbers of veterans have been recalled and local militia forces are to be created. The new troops, however, will be costly and will place additional burdens on the government's already strained logistic capabilities. Such new forces will enhance the regime's ability to contain for a while longer the various insurgencies, but will not significantly improve its offensive military capability.

25X1

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51-55

MOSCOW QUESTIONS PEKING'S MOTIVES

The Soviets are still not saying much either publicly or privately about China's release of the helicopter crew.

Their public diffidence may be partially explained by the desire to avoid anything that might blur in the minds of the Soviet people the picture of Chinese intransigence that now exists. Last week a Moscow lecturer, having difficulty fielding a question on the release, took refuge in an allegation that one of the crewmen had been mistreated.

In private, the Soviets have been skeptical about the meaning of the release. Two Soviet officials, in comments to Western officials, described it as essentially a message to the US rather than to the USSR. One cited the continuation of anti-Soviet statements in the Chinese press as evidence that Peking is not ready to lessen tension with the USSR.

In a recent conversation with a US embassy official, Viktor Krasheninnikov of the Foreign Ministry's First Far East Division did not mention the US aspect but said that, the helicopter crew release notwithstanding, it was still up to the Chinese to demonstrate their interest in better relations. He suggested they could do so by responding favorably to Soviet suggestions for increased trade and a renewal of cultural and scientific exchanges.

Krasheninnikov implied that the Soviets feel under no pressure to respond to China's gesture and, contrary to a statement by a Sinologist attached to the USA Institute, said he knew of no current plan to send Deputy Foreign Minister Ilichev, Moscow's negotiator for the border talks, back to Peking. He also said that there would be no change in Soviet treatment of China at the coming party congress.

The Soviet diplomat seemed to be going out of his way to emphasize that Moscow's "correct and principled" policy regarding China would continue and pointed out that Moscow had handled Chou En-lai's death in the same way as

that of Politburo member Tung Pi-wu last year. The only difference, which Krasheninnikov did not mention, is that on this occasion the Soviet press has noted that a condolence call was made at the Chinese embassy. First Deputy Premier Mazurov, who paid the visit on Wednesday, January 14, was filling in for Premier Kosygin, now on vacation.

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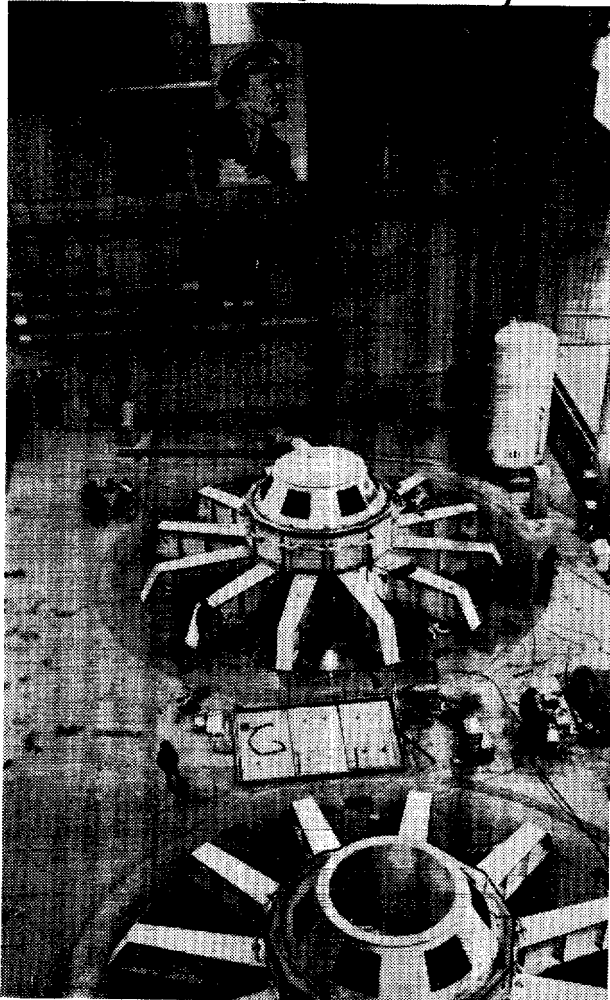


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(SOV FOTO)



Machine sector of the
Toktogulskaya Hydropower Station

USSR

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Electric Power Production

The goal for electric power production during the tenth five-year plan (1976-80) may be optimistic, but a serious imbalance between power production and requirements seems unlikely. Even if goals for the electric power industry are not fully realized, lags in power consuming sec-

tors will probably be sufficient to offset the shortfall and maintain an overall balance.

The new plan provides for annual production of 1,340 to 1,380 billion kilowatt hours of electricity by 1980, an increase of 29 to 33 percent over 1975. Total industrial output is to increase at a faster rate, and industry's share of total power consumption may be greater than in the past. Since the rural economy will also seek to increase its share of electric power, competition for electricity is likely. Regional power shortages almost certainly will become more prevalent, especially in the European USSR, which consumes 80 percent of Soviet electricity but is deficient in energy resources.

Achievement of the goal for electric power production depends on the installation of 67,000 to 70,000 megawatts of new generating capacity and on the construction of high-voltage, long-distance transmission lines. Nuclear-electric power plants are to account for approximately 20 percent of the planned additions to capacity—compared with about 7 percent in the last five-year plan—with another 20 percent in hydroelectric plants. The remainder will be in conventional thermal power plants, some to be built in the eastern regions of the country to utilize cheap coal. All the nuclear capacity and more than one third of the hydro capacity will be added in the European USSR. Past performance suggests that the addition of new capacity will fall short of plans.

The plan also calls for installation of a large number of gas turbines to meet demand for power in hours of peak use. The Soviet equipment industry has not mastered their production, however, and the Ministry of Power has been forced to seek them in the West. Because of the large hard-currency deficit, recent negotiations with General Electric for the purchase of equipment, probably including gas turbines, have been discontinued, and the problem of covering peak demand may grow more severe.

Work on a unified transmission network for the entire Soviet union will continue with construction of main transmission lines carrying

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voltages of 500, 750, and 1,150 kilovolts and connection of the Central Asian and Siberian networks to the European network. The long-discussed 1,500-kilovolt, direct-current transmission line that the Soviets plan to use to move large amounts of electric power from eastern regions to the European USSR is not included in the plan. As a result, the location of generating facilities in areas far from major western centers of power consumption may still remain a problem.

Preparing for the 25th CPSU Congress

The Armenian and Lithuanian party congresses meet on January 20, opening the final stage of preparations for the 25th Congress of the Communist Party of the Soviet Union (CPSU) on February 24. All republics, except the Russian—which does not have a republic-level party organization—and Kirgizia and Latvia, have announced the opening dates for their congresses. Kirgizia and Latvia have, however, published the agendas for their congresses.

In contrast to the confusion that accompanied preparations for the last congress, in 1971, the lower level party meetings that have already taken place have been orderly and uneventful. There has been remarkable stability in party first secretary assignments at the oblast level. The small number of changes at lower levels during

1976 REPUBLIC PARTY CONGRESSES

January 20	Armenia, Lithuania
January 22	Georgia
January 23	Turkmenistan
January 27	Tadzhikistan
January 28	Azerbaydzhan, Estonia
January 29	Moldavia
February 3	Uzbekistan
February 4	Belorussia, Kazakhstan
February 10	Ukraine
Not announced	Kirgizia, Latvia

the pre-congress period suggests that stability and continuity will be the order of the day at the CPSU Congress.

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SOVIETS INVITE OBSERVERS

Moscow has invited the Greek and Turkish military attaches to observe the Soviet military exercise to be held in the Caucasus from January 25 to February 6. Bulgaria and Romania from the Warsaw Pact and Yugoslavia, which is nonaligned, have also been invited to attend.

Invitations such as these, although among the confidence-building measures of the Helsinki accord, are voluntary. The Soviets apparently desire to counter Western criticism of Moscow's record with regard to the accord and to improve the atmosphere for the force reductions talks that resume in Vienna later this month. The Soviets' first act of compliance with the confidence-building measures was January 4, when they gave notification—21 days in advance—of a maneuver that involved about 25,000 troops within 250 kilometers of the border of a Helsinki participatory state.

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Moscow may want to avoid establishing a precedent for across-the-board inter-bloc hospitality. Since the Helsinki accord was signed, the Warsaw Pact states have declined invitations to attend NATO exercises.

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The exercise will probably feature an airborne assault on an unspecified "deep objective," and either the combat-ready airborne division at Kirovobad or the airmobile unit at Kutaisi could be used. Elements of some of the five motorized rifle divisions located near the exercise area, and combat aircraft from the tactical air force are also expected to participate.

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SECRET**ICELAND: BREAK WITH UK LOOMS**

20-11

Iceland is apparently prepared to break relations with the UK, but may wait until after NATO Secretary General Luns has had a chance to air his proposals for settling the fisheries dispute between the two allies. Luns arrived in Reykjavik on January 14. Britain has suggested that, rather than a trip to London, he meet with British Foreign Secretary Callaghan on January 20 in Brussels during the EC Foreign Ministers' meeting.

The decision to send Luns, who helped mediate a settlement of the last cod war in 1973, was made at an emergency session of the North Atlantic Council on January 12. Although Reykjavik did not receive the strong support it had expected at the NATO meeting, the majority of the ambassadors called for a withdrawal of British frigates from the contested waters as a first step toward settling the dispute. Reykjavik has indicated that it might call home its ambassador to NATO, if the British continue to operate within Iceland's 200-mile limit and the NATO allies take no action.

Prime Minister Hallgrimsson insists that Luns' visit should not be considered a mediation effort, but rather a fact-finding mission prior to convening another NATO meeting to consider further measures. Hallgrimsson claims that domestic opinion is opposed to further negotiations while British frigates remain in Icelandic waters.

Emotions are continuing to run high in Iceland. Hallgrimsson told the US ambassador last weekend that he believes anti-NATO sentiment in Iceland is stronger now than during the national debate in 1973 over renewing the treaty governing the US-manned NATO base at Keflavik. Angry fishermen blockaded two NATO facilities outside the main Keflavik base last weekend, charging that NATO had failed to defend Iceland from British aggression.

The protracted dispute appears to be creating political difficulties for Hallgrimsson who claims that he is losing the support of his own Independence Party, as well as that of the

Progressive Party, the junior coalition partner. Hallgrimsson argues that he must take a stronger position in the fisheries dispute to prevent the Progressive Party from abandoning the coalition and bringing down the government.

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EC: TINDEMANS SUBMITS HIS REPORT

72 85

Europe's continuing effort to organize itself has again taken center stage following publication last week of Belgian Prime Minister Tindemans' report on European union. The report has been under preparation since late 1974, during which time Tindemans discussed relevant issues with government, party, business, and labor leaders in the member countries.

The report, which provides a blueprint for evolution toward union, is already controversial—some regret its lack of originality, and others complain that it goes too far, on defense policy for example. The principal value of the report will be to spur debate on Tindemans' underlying thesis that European unity cannot be attained unless it reflects a consensus on political and security issues as well as agreement on joint economic policies. The debate will presumably gain relevance because of the expectations that direct elections to the European Parliament—scheduled for 1978—will reinforce a sense of Community self-awareness.

The Prime Minister, who set no deadlines for specific actions, defines European union as a way station between today's European Community and a United States of Europe. It is thus seen as a process characterized by increasing accord on economic and foreign policies and a growing assumption of authority by supranational Community institutions. The priority concerns seen by Tindemans in foreign policy are the developing world, relations with the US, security and defense issues, and unstable political situations in Europe.

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Tindemans wants joint security policy to be enhanced through regular consultations on East-West matters. Defense policy itself, a sine qua non for ultimate union, should be approached now through cooperation in armaments manufacture and, possibly, the creation of a European armaments agency. Defense should be a major issue in proposed top-level discussions between the US and one of the nine heads of government representing the Community.

The report proposes that the economically healthier members should go ahead with economic and monetary union, leaving the others—Ireland, the UK, and Italy—to catch up. All the members, however, would participate in deciding on the common goals.

Tindemans also calls for a substantial strengthening of EC institutions. The parliament should initiate policy along with the Commission, and the Commission itself should have a "political" president—selected by the heads of government. The role of the European Council—the heads of government of the Nine—and its method of working should be more precisely defined and the executive powers of the Council of Ministers increased, with more of its decisions reached by compulsory majority vote.

Initial official reaction to the report has been mostly cautious and noncommittal. Press commentary has been extensive, however, and seems to reflect a widespread feeling that the report, at the least, perceptively analyzes the obstacles to European unity. It is evident, nevertheless, that Tindemans has offered no magic formulas for overcoming traditional differences among the Nine.

The smaller countries have shown some suspicion that consultation among the heads of government is emphasized to the detriment of Community institutions. Britain, Ireland, and Italy are wary of the "second-class membership" implications of Tindemans' economic proposals. Both Denmark and the Netherlands are concerned about the effects on NATO of premature European defense efforts. In France, meanwhile, both the Gaullists and the Communists have railed



Tindemans

against the implied loss of national independence through European union.

It nevertheless seems unlikely that the report will be "buried" as Tindemans seems to fear, if only because the issues it addresses appear increasingly ineluctable to most Europeans. Some of the Nine have set in train parliamentary debate as a prelude to the next European Council on March 15-16 in Luxembourg, where the report will be the centerpiece. The EC Council and Commission are then likely to be asked to prepare proposals for examination later this year. Early changes in the Community's structure and competence are unlikely, however, especially since certain proposals, such as the formal incorporation of political consultations into the EC framework, would require treaty amendments and could also give rise to referenda in some countries.

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De Martino

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ITALY: MORE PROBLEMS FOR MORO

With a new mandate from President Leone, Aldo Moro has begun the process of trying to patch together a government to replace the one he headed until last week when the Socialist Party forced him to resign by withdrawing its parliamentary support.

Moro will reportedly try first to get all four parties of the center-left—his Christian Democrats, the Socialists, Social Democrats, and Republicans—to resume full participation in the government. An alliance among these parties has been the basis for most Italian governments since the "opening to the left" in 1963 that brought the Socialists into the government. The alliance was never very tranquil, but the differences among the parties have been magnified by several recent trends, such as the country's severe economic problems and the growing influence of the Communist Party. Following the collapse in late 1974 of the last coalition in which all four parties participated, only two—the Christian Democrats and the Republicans—accepted positions in Moro's cabinet. The Socialists and Social Democrats limited their role to providing Moro the parliamentary support he needed for a majority.

Differences among the parties have deepened since then, leaving Moro with major hurdles to clear in his effort to restore cooperation among the four parties. One problem stems from Socialist leader De Martino's assertion that his party is entitled to be treated as a political equal by the dominant Christian Democrats because of the growing strength of the left.

Despite the relatively small representation De Martino's party has in parliament, it is in a pivotal position. Socialist votes alone are sufficient to give the Christian Democrats the majority they need to continue governing without the Communists.

That situation has led some Christian Democrats and Socialists to urge in the past that the two smaller parties of the center-left formula be dropped or relegated to minor roles—a suggestion that may resurface as the search for a new government proceeds. As long as the Social

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Democrats and Republicans are involved in the bargaining, however, they are likely to resist any Christian Democratic attempt to pacify the Socialists with more ministries and more influence on economic and other policies.

The largest stumbling block in Moro's path, however, is the Socialists' insistence that a more open consultative relationship be established between the government and the Communist opposition. The Christian Democrats are strongly opposed to any such agreement, but the Socialists believe it is necessary to limit the Communists' ability to capitalize on their opposition status. Socialist chief De Martino has been backpedaling on this issue, but he has yet to drop the demand altogether.

The situation is complicated by the latest Communist statement, in which the party says it wants either to remain in opposition or to have full membership in the government. The Communists in the past have favored a formal consultative relationship with the government, presumably as a step toward establishing their credentials as a governing party. Since the Communists' sharp gains in the June elections, however, the party has sought to avoid any appearance of condoning the kind of government it attacked with such success in those contests.

The refusal of the Communists to be drawn into an arrangement such as that proposed by the Socialists could ease the way for a compromise between the Socialists and the other parties. On the other hand, the Communist move might reinforce the tendency of some Socialists to view the risks of an early parliamentary election as preferable to being the only major party on the left that has to defend government actions to the voters.

SPAIN: LABOR UNREST SPREADS

Rapidly spreading strikes and labor violence are forcing the government to adopt sterner control measures and may set back government plans to introduce labor reforms and other liberalization measures.

Early this week an estimated 200,000 workers were idle throughout Spain. The construction, metal, electronics, auto, textile, and banking industries were most affected. A slowdown also disrupted telephone service in northern Spain. Dockworkers went on strike in Barcelona, and workers at power stations refused to make repairs and threatened to cut off electricity to the city if police intervened in their dispute.

Spanish government officials claim that the Communists, encouraged by the turmoil of last week's subway strike, are trying to use the current wave of unrest to prepare for a general strike later this month that would discredit the Juan Carlos regime and upset the country's economy. Communist labor leaders have reportedly taken the initiative in organizing street incidents that have resulted in confrontations with the police, but attempts to politicize the strikes appear to have had limited success to date. Although strike appeals often contain some political demands—amnesty for political prisoners, free labor unions, legalization of political parties—strikes have occurred primarily in industries where economic or labor problems already existed, and particularly in those where new collective bargaining contracts are being negotiated.

The government has indicated that strikes with purely economic goals will be tolerated—even when they do not conform to the strict controls required of a "legal" strike—but Interior Minister Fraga warned that any public disturbances would be dealt with firmly. Police have on several occasions during the past week resorted to tear gas and smoke bombs to disperse unruly demonstrators and eject workers occupying work areas, offices, and churches.

The government has not interfered with negotiations between striking workers and their

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(AP)



Spanish riot police watch over striking bank workers

employers, although in the case of strikes "disrupting public order" pressure has been exerted to get the strikers back to work even if negotiations have not been concluded. During the five-day Madrid subway strike last week, indirect pressure was applied by bringing in specially trained army personnel to keep the trains rolling. An even more serious disruption caused by the one-day postal strike in Madrid on January 13 was dealt with by placing postal workers temporarily under the direct control of the area's military commander and making them subject to the code of military justice.

The strikes and demonstrations are increasing pressure on the government to slow the planned pace of liberalization. Rightist political leaders have been meeting in an apparent effort to get the government to crack down on labor. The conservative finance minister is calling for strict wage controls, blaming large pay hikes of the past two years for Spain's roughly 15-percent rate of inflation. So far, the government has held to its policy of restraint, but if the strikes and demonstrations continue to spread, the government may find it has no recourse but to adopt the harsh measures of the Franco regime.

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JAPAN-USSR: GROMYKO VISIT

Foreign Minister Gromyko's visit to Tokyo did nothing to improve bilateral relations. A brief communique, issued after Gromyko had departed, expressed the usual platitudes about the desirability of expanding economic and cultural relations, confirmed that the talks on a peace treaty would continue, and announced that Foreign Minister Miyazawa would go to the USSR later this year.

One major stumbling block was Tokyo's

desire to include an explicit reference to the Northern Territories issue. In line with Moscow's current tough stance toward Japan, Gromyko would not go beyond the statement included in the Brezhnev-Tanaka communique of 1973, which implied that the territorial issue would be covered as part of the continuing negotiations on a peace treaty. Gromyko raised the possibility of an interim treaty of friendship and cooperation that would not cover the Northern Territories issue, but he reportedly did not press the proposal when the Japanese demurred.

(AP)



Foreign Minister Gromyko with Prime Minister Miki

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The Soviet foreign minister made some attempt to put a more positive light on his visit. He was relatively conciliatory on the fisheries problem, saying that Moscow would soon release 32 Japanese fishermen detained in the USSR and promising increased Soviet efforts to carry out the fisheries agreement that the two sides signed last summer.

Gromyko was especially harsh on the Japanese for considering a treaty with Peking that would include an anti-hegemony clause. He said publicly that Moscow would have to review its relations with Tokyo if the Japanese went ahead with the treaty. Claiming that Peking seeks hegemony in Asia, he attacked the Chinese for pressing the Japanese to go along with an anti-Soviet policy.

The Japanese, for their part, insisted that the anti-hegemony clause is not aimed at the USSR and moved quickly to dispel any idea that Soviet objections would dissuade Tokyo from further normalizing its relations with Peking. Shortly after Gromyko left, Prime Minister Miki said publicly that Japan would continue working to conclude a treaty with Peking, despite Soviet objections. Miki's forthright stance was undoubtedly also shaped by his domestic political calculations; national elections are possible as early as this spring, and Miki along with other conservative politicians would have been unlikely to adopt a compromising posture on any of the long-standing differences between Moscow and Tokyo.

Peking is no doubt delighted at Gromyko's failure to stimulate any progress in Soviet-Japanese relations. Ever since the visit was announced, the Chinese have maintained a steady drumbeat of press comment against Moscow, charging that the Soviet refusal to return the Northern Territories is an example of Soviet "hegemonism" and that Gromyko's primary objective was to throw obstacles in the path of improving Sino-Japanese relations. Peking will highlight Miki's comments on the importance to Tokyo of the proposed Sino-Japanese peace trea-

ty and may attempt to capitalize on the momentum generated by the Gromyko visit by suggesting a resumption of the long-stalled treaty talks.

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100-105 CHINA: MOURNING CHOU EN-LAI

As China devoted an unprecedented week to official mourning for Chou En-lai, there was ample evidence that most Chinese felt their country had entered a period of transition. Condolence messages from foreign governments, other than those of the Soviet Union and its closest allies, paid glowing tribute to the deceased premier, and the official Chinese obituary termed his death a "gigantic loss." Even the staid Chinese leadership indulged in uncharacteristic displays of emotion—some leaders were shown on national television crying as they paid final respects to Chou.

Peking had made no effort to hide Chou's illness now officially confirmed as cancer, from the Chinese people. They were prepared for the moment of his death and accepted the news without any visible signs of anxiety about the future but with obvious grief. Hundreds of thousands of people filed tearfully by as Chou lay in state.

Chinese leaders, including those from the provinces, have been meeting in Peking every day since Chou's death. One purpose of the meetings undoubtedly is to confirm senior vice premier Teng Hsiao-ping as Chou's successor. Teng has been filling in for Chou for more than a year, but his appointment to the premiership will not sit well with the party's left wing, which was instrumental in ousting him in the mid-1960s. Most Chinese leaders probably would like to confirm Teng's appointment quickly, in order to convey an image of continuity and smooth transition. Prolonged wrangling over the issue could result in growing political malaise.

Teng has moved vigorously over the past year to consolidate his authority. He holds important

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posts in the party, state, and military bureaucracies and has appointed close associates to key jobs in each area. Teng lacks, however, the overwhelming prestige and affection accorded to Chou by the Chinese public and by many officials, and he does not seem to possess Chou's talents for conciliation and compromise. Indeed, Teng's failure to take into account the views of the party's left wing, as well as the growing recognition of Chou's imminent demise, probably contributed in no small measure to the leftist backlash that has appeared in the propaganda since last month.

Teng appears, however, to have the confidence of Mao Tse-tung, who along with Chou, had a personal hand in bringing Teng back from political disgrace. Although Teng has a well-deserved reputation as an efficient and tough-minded administrator, he lacks Chou's broad perspective and depth of experience. As a consequence, Chou's absence over time will almost certainly have a subtle effect on the shape and flexibility of Chinese foreign and domestic policies. Teng appears, for example, to accept fully the rationale that led to Peking's partial rapprochement with Washington, but he was not part of the leadership when that initiative was made and his prestige is not so deeply bound up with its success.

Chou's death underlines the age and uncertain health of other Chinese leaders, particularly Mao himself, who turned 82 last month and who is obviously frail. Chou was the second party vice chairman to die within one month and the third member of the Politburo's elite standing committee to die in less than a year.

The meetings currently under way in Peking may also be dealing with the question of reconstituting the party's top echelon by moving up some second-ranking figures and possibly rearranging the pecking order. Chou's demise leaves 40-year-old Wang Hung-wen as the nominal number two man in the leadership, but Wang has been rumored to have shown signs of political immaturity during the past year, and Peking may want to move a more experienced official into the second slot.

THAILAND: NEW ELECTIONS

The political situation in Bangkok came unstuck this week when Prime Minister Khukrit's efforts to fend off a parliamentary challenge to his government backfired. Unable to form a stable coalition, he asked King Phumiphon to dissolve the National Assembly and call for new elections, which were requested by the King on January 12. General elections, as required by the constitution, will be held on April 4. Khukrit and the present cabinet will remain in a caretaker status.

Khukrit had attempted to buy off his parliamentary opponents by bringing them into the cabinet. By doing so, however, he upset the already delicate balance of his eight-party coalition. Many rank-and-file members of the coalition parties threatened to join the opposition in a vote of no-confidence in protest over Khukrit's cabinet reshuffle. Khukrit, faced with the possibility of losing the vote and convinced that none of his rivals stood a better chance of forming a new government, played his final trump card and called for the dissolution of the assembly.

Most observers do not believe that new elections will strengthen the parliamentary process. During last January's election, 22 political parties won seats in the assembly. There are still no restrictions on the number of parties, and there seems little likelihood that the new assembly will be any less faction ridden.

The Prime Minister has announced that he will stand for election. Presumably Khukrit will exploit his control over the government's election machinery to strengthen his own Social Action Party, but it is not a foregone conclusion that he will remain prime minister.

Retired army commander Krit Siwara, who was instrumental in stimulating the parliamentary challenge, is likely to run for a seat in the assembly in order to become eligible for a cabinet position or the prime ministership. Should he win, Krit would be a leading candidate to form a new government

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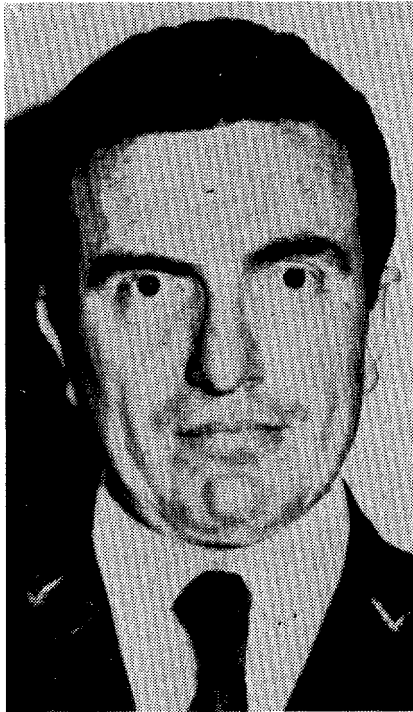
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ECUADOR: NEW FACES; OLD PROBLEMS

The three-man military junta that took over from former president Rodriguez Lara last weekend may be no more stable than the ineffectual and problem-ridden government it replaces.

On January 11, after months of political uncertainty and internal disorders, a triumvirate consisting of the armed forces chiefs replaced the discredited four-year-old Rodriguez regime. Their peaceful assumption of power—delayed several hours so Rodriguez' daughter could be married in the presidential palace—does not presage any significant change in Ecuador's domestic and foreign policies. Although the move was apparently designed to remove the focus of criticism by labor and students and near continuous plotting by the military, the new government is not likely to develop rapid remedies to the problems that plague Ecuador. The new leaders, with Admiral Alfredo Poveda

Burbano assuming the role of spokesman, say they intend to adhere to the "revolutionary principles and programs of the armed forces," including a return to civilian rule by the end of 1977.

Critics of the military are already reacting to the prospect of two more years of military rule. Four ex-presidents have issued a call for the return of the government to civilian hands, and party leaders have informed US embassy officers that they are working on a joint manifesto calling for immediate general elections.

When it becomes clear that pressure will not speed the return to civilian government, the opposition is likely to adopt the same tactics—strikes and disorders—that paralyzed the Rodriguez regime in its final weeks. Thus far, Ecuadoreans seem to have accepted the news of the new government quietly and with general in-

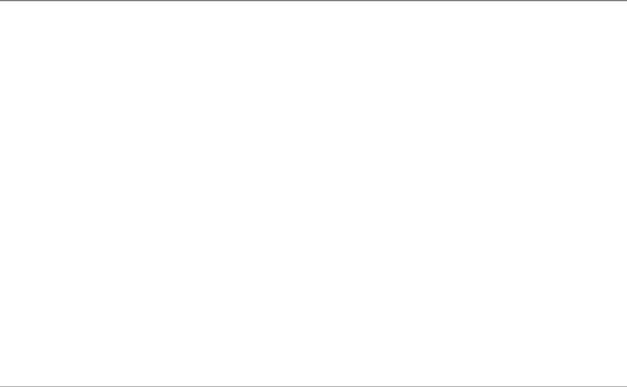
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difference, perhaps reflecting a belief that a few new faces at the top will not improve things much. Economic problems will continue to be more important to Ecuadoreans than the ramifications of a political shuffle.

Economically, the country is in poor shape. The three-year-old oil boom is fizzling despite a reduction in oil prices and an increase in exports. Due to government ineptitude, petroleum revenues have not kept pace with rising import bills. The government's erratic treatment of the foreign oil companies has frightened off other potential foreign investors. Moreover, increased government spending created a sizable deficit last year that had to be covered with foreign loans. Inflation has been on the rise since 1973 and has been the cause of recent student and labor unrest; there is no immediate solution to this problem.

The longevity of the military junta ultimately will rest on its ability to work together; prospects for this are not good. A simmering rivalry between Poveda and army commander General Duran threatens to continue factionalism within the armed forces. Poveda's action allocating for himself responsibility for the military and security services while putting Duran in charge of economic policy may fan the animosity between them. Duran will consider the move an attempt to undercut his support in the army by making him the focus for discontent in the country. Moreover, the army hold six posts in the new cabinet while the navy and air force hold only two each. Civilians hold the posts of finance, foreign relations, and industry. Air Force chief Luis Leoro Franco is expected to play a minor role in the triumvirate. These rivalries will hinder the harmonious execution of triumvirate policies. A solution to this difficulty is not readily apparent. The emergence of a strong man from the junta would certainly be opposed by other members and also by the various services.



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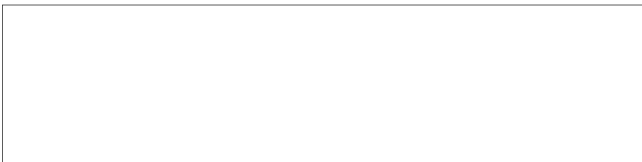
VENEZUELA: OIL JITTERS

President Carlos Andres Perez and other government officials are warning that the oil bonanza Venezuelans have taken for granted may be short-lived and that a nationwide austerity program must be implemented immediately if the country's long-term economic development programs are to be fulfilled.

In an unusually frank speech on the occasion of the nationalization of the foreign-owned petroleum industry, Perez berated Venezuelans for squandering the country's oil wealth "on all manner of junk" and maintained that unless this mentality changes, nationalization will be a failure. Perez' tough language reflects the privately held views of many Venezuelan officials and leaders of the governing Democratic Action Party that nationalization has created some potentially dangerous political pitfalls for Perez and that the political fortunes of the party will ride or fall on the ability of Venezuela's petroleum corporation to maintain petroleum production.

Management problems will be legion. Added to this are declining revenues stemming from the government's insistence on maintaining OPEC price levels in a depressed market. The opposition parties have made clear their intention to maintain close watch and publicize any misstep in the government's management of the country's two

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important extractive industries and major sources of revenue—oil and iron ore.

Venezuelans expect many immediate social and economic benefits from nationalization. Thus, any government deficit that results will diminish the government's popularity and create a situation of political and labor unrest. Adding to the self-doubt and trepidation is a genuine concern over the government's ability to maintain labor peace in this vital sector of the economy. Industry-wide contract negotiations for some 24,000 highly paid petroleum workers begin in April and will be difficult. Many of the tactics used by the opposition political parties in provoking wildcat strikes after the nationalization of the iron mines last year apparently are being repeated among the petroleum workers with some effect. To ensure labor peace, the Democratic Action Party is making a strong bid to win control of the petroleum workers federation in union elections scheduled for the first week in February.

The government is also making a strenuous effort to keep the decline in petroleum revenues to a minimum. It is giving top priority to developing new markets.

The tough talk has undoubtedly come as a shock to Venezuelans who have come to accept as a matter of fact the oil riches of the past few years. The changing petroleum situation has probably had the salutary effect of stimulating the government to face up more realistically to some of its fundamental problems.

The new realism reflects the belief that even though nationalism has been proclaimed and the administration has wrapped up a sales and service agreement with Creole (EXXON), the country's largest major refiner/producer, the process of putting the oil industry on a sound footing is far from over. In fact, agreements with the other major companies are still subject to settlement of some sensitive details and are expected to drag on for some time.

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LATIN AMERICAN ARMS PURCHASES

In the late 1960s, many Latin American countries began major programs aimed at modernizing their armed forces. These moves grew out of national competition for hemispheric leadership, the fueling of intra-regional rivalries, and the desire of military governments to enhance their prestige.

Purchases of foreign arms reached an average of \$600 million a year in the five-year period, 1970-74, a two-fold increase over the average in the previous five-year period. Five countries—Argentina, Brazil, Chile, Peru, and Venezuela—accounted for about 80 percent of the total. Purchases in 1975 may reach a record \$1.2 billion because of large Venezuelan and Argentine orders for ships and an Ecuadorean deal for ground equipment.

Despite the large jump in procurement, Latin America remains the smallest arms market among the regions of the Third World and accounts for only 8 percent of total military purchases by the Third World. In the 1970s, Iran, Israel, and Saudi Arabia each purchased more arms than all of Latin America.

Like other developing countries, Latin American states have sought costly, high technology ordnance. Almost three fourths of their orders have been for warships, including destroyer escorts equipped with guided-missile

systems, and aircraft, including mach-2 jet fighters.

West European countries have won two thirds of the arms contracts awarded in the last six years, moving into a market previously dominated by the US. The substantial shift resulted from aggressive European sales tactics, US restrictions on sales and credit, and a concerted effort by major Latin American purchasers to reduce their dependence on the US.

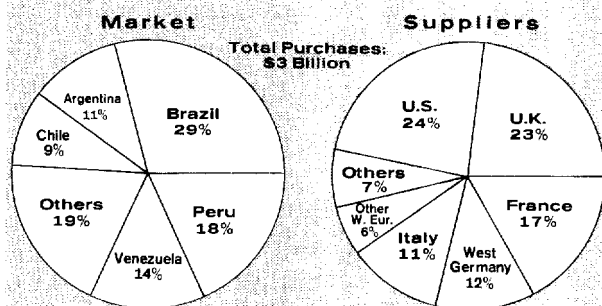
West European countries, as a group, sold \$2.4 billion of arms to Latin America during the past six years—mostly high cost, sophisticated combat equipment. One half of the aircraft and ground forces equipment and about 80 percent of the naval ships have come from Western Europe. The UK, France, West Germany, and Italy have been the major suppliers. A new record for West European arms sales to Latin America—over \$1 billion—was probably reached in 1975.

The US still has a 24-percent share of the market—the largest of any single country—mainly because of sales of follow-on equipment and spare parts for weapons already in Latin American inventories. Despite its reduced role as an arms supplier, the US remains the major source of foreign technical services to Latin American armed forces through training missions, equipment installation, and maintenance operations.

Less than 10 percent of Latin America's foreign arms purchases have come from countries outside of Western Europe and the US. Peru so far is the only non-communist country in Latin America to sign a military agreement with Moscow.

The more industrialized Latin American nations are developing their own arms industries, often through licensing and assembly agreements with West European countries. Foreign components are frequently used for all or part of the finished weapons made in Latin America. These arrangements are intended to save foreign exchange, to improve domestic technical

**Latin American Arms Purchases
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capabilities, and to adapt weapons systems to local needs. Although ten Latin American countries are able to manufacture a variety of infantry weapons, small arms ammunition, and quarter-master supplies, only Argentina and Brazil are approaching self-sufficiency.

Because Latin America has been remarkably free of major military conflicts, Latin countries, as a whole, have consistently spent a smaller proportion of their gross national product on defense than other developing nations. Between 1966 and 1972, the average annual outlay in Latin America was about 2 percent; since then it has dropped to less than 1.5 percent. Average expenditures of all third-world nations were more than 5.5 percent, and the figure for the Middle East was almost 12 percent.

Latin American military budgets typically allow 10 to 15 percent of total expenditures for procurement of foreign arms. By spreading delivery and repayment over a number of years, countries have made large arms purchases without seriously straining their balance of payments. Although the annual payment on the military debt has increased to some \$300 million to \$400 million during the past three years, Latin American countries should be able to meet current repayment schedules without jeopardizing economic development.

We expect Latin American arms purchases to run about \$1 billion annually over the next five years, two thirds above the last five. Higher outlays principally reflect increased prices for sophisticated weapons systems and growing requirements for follow-on support. We do not anticipate any large increase in the quantities of equipment ordered, primarily because of balance-of-payments and other fiscal constraints.

Although Latin America has shown preference for US aircraft, West European suppliers will get a somewhat larger share of the contracts because they offer a wider variety of equipment and faster delivery. US government restrictions on the sale of certain weapons

systems, as well as prior commitments to US forces and Middle East customers, will help restrict US sales

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126-131 VIOLENCE IN JAMAICA

The partisan violence that erupted last week in several Kingston slums and elsewhere in Jamaica has subsided, but Prime Minister Manley is taking advantage of the disturbances to strengthen his position.

Conflict between supporters of Manley's Peoples National Party and the opposition Jamaican Labor Party has been endemic in West Kingston's slums, but the level of tension has recently increased as political bosses in both parties tried to expand their area of control. A gang led by Housing Minister Anthony Spaulding, a leader of the left wing of Manley's party, has had a major role in the turbulence. Spaulding has been pressing Manley for some time to be more anti-US and to speed the creation of a socialist state.

Manley's response to the violence can be interpreted as a reaffirmation of his intention to keep his government on a leftward course. He refused to give security forces a free hand in halting the rioting—which resulted in the deaths of some 10 civilians and injured over 100—and now appears to be trying to turn the situation to his political advantage. He accused the Jamaican Labor Party of "hiring armed gunmen to shoot their way to power" and announced plans to create a self-defense force within his own party. The Prime Minister also called for a mass meeting on January 29 of "those who will be going forward to socialism in 1976."

The self-defense force is likely to be drawn from the youth arm of the Peoples National Party, an organization with close ties to Havana. Its members last week joined with a Marxist-Leninist labor group to protest the presence in Jamaica of the CIA and "US imperialists" and to stone the US consulate.

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OPEC: HEAVY CRUDE SALES SLUMP

Iran, Venezuela, and Kuwait, producers of most of the world's heavy, high-sulfur crude oil, are having difficulty selling their oil. Consumption of heavy fuel oil slumped with the drop in industrial output, particularly in Western Europe, where most of OPEC's heavy crude is marketed, causing refiners to accumulate large excess stocks of heavy fuel oil. As a consequence, while overall OPEC output has increased since the first half of 1975, output of heavy crudes has fallen.

Compared with the first half of 1975, output of heavy crudes in Iran, Venezuela, and Kuwait had fallen by 2.3 million barrels per day or 35 percent. In contrast, output in other OPEC countries has risen by 2.5 million barrels per day or 15 percent. In Iran, output traditionally has consisted of about half heavy oil and half light oil. In recent months, heavy crude exports have been cut by nearly half, whereas light crude sales have been at near capacity levels.

The market is unlikely to provide any quick relief for the heavy oil producers. The drop in heavy crude consumption stems from the continuing recession in industrial countries. Moreover, although relatively little substitution of other fuels for OPEC oil has occurred, that which has taken place has been at the expense of heavy fuel oil. In Western Europe, natural gas from the Netherlands and the North Sea is being used under boilers to replace heavy oil, while growing steam coal consumption in Japan, the US, and Western Europe is reducing use of heavy oil by utilities.

Light oil producers, on the other hand, are enjoying strong demand for their low-sulfur high-gravity crudes. They are taking steps to boost prices above those set last October to reflect this rise in demand. Nigeria has just boosted its prices by an average of 40 cents a barrel.

The heavy oil producers are steadfastly refusing to cut prices. OPEC countries are keenly aware of the problem, which they view as mainly one of differentials. We believe the problem is more basic and that even if the heavy oil

producers reduce their prices to reflect current market trends, they will probably continue to have problems marketing their oil. Unless world economic recovery is more rapid than we expect, heavy fuel oil use will lag behind growth in consumption of light oil products, and the demand for heavy crude will remain low relative to lighter crude.

Establishing and maintaining realistic oil quality differentials has been one of OPEC's most difficult problems. Disagreements over the proper level of such adjustments have strained cartel unity on several occasions, most recently at the Vienna meeting in December, where most of the members attacked Iraq for shaving prices by offering inadequate quality and freight differentials. In fact, most of the difficulties faced by Iran, Venezuela, and Kuwait were caused by a sharp shift in relative product prices, which had made their crude oils uncompetitive. Had the meeting not been disrupted by the kidnapping, the oil ministers would probably have taken some steps to remedy the growing gap between market values and official differentials.

OPEC is likely to respond to the situation over the next few months by a series of ad hoc measures that will gradually widen existing gravity differentials. Prices for heavy crude oils will be lowered, while those for light crudes will rise. Even if the price of Saudi benchmark oil remains frozen through June—as OPEC announced following the pricing decision of last September—the overall cost of oil to consumers will probably rise, since more light oil is being produced.

The US will be particularly hard hit by a re-arrangement of quality differentials, since it imports primarily light crudes. The recent Nigerian price boost may increase US annual oil import costs by \$130 million. If crude prices adjust to reflect fully current product prices, total crude oil to the US will rise by about \$200 million per year. Western Europe and Japan will face smaller rises in their oil bills since they use more heavy fuel oil than does the US.

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